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Report Highlights:

Although in 2005 growth rate halved compared to the previous year, Romania is still one of the most dynamic European economies and the top importer of US agricultural products in the region. Adoption and implementation of EU measures will impact U.S. exports of meats (poultry, pork) and biotechnology products to Romania.

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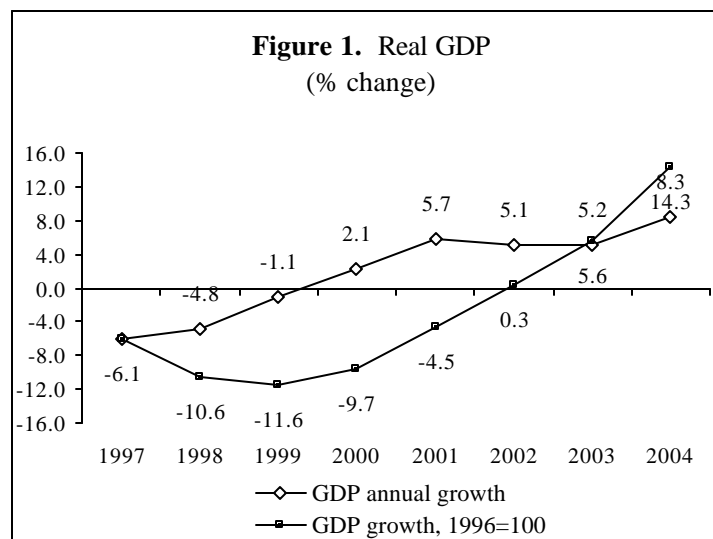
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Executive Summary

OVERVIEW

Over the last few years, Romania has achieved important improvements in its



macroeconomic indicators, in a consistent effort of the government authorities, as the country's EU integration is approaching. The economy continued to grow in 2005, though the rate halved (4.1 percent compared to 8.3 percent in 2004, see Figure 1), while end-of-period consumer price index (CPI) inflation went down to 8.3 and is likely to hit 6.5 percent by year-end 2006 and then fall to 4 percent by the end of 2007. Nonetheless, such projections may be affected by the high world oil and natural gas prices and the periodic adjustment of administered prices for a number of items (accounting for 23% of the CPI basket). The public deficit (a major source of instability in the past) was reduced from 4% of GDP in 2000 to an estimated 0.8% in 2005. There are indications that Romanian economy is going to slightly accelerate its growth to 4.5% in 2006 and further to 5.2% in real terms, based on better performance of investments and exports¹. With a GDP per capita of about US\$4,000 in 2005 (up from US\$1,585 in 1999), Romania is a middle-income country. Some 25% of its population lives below the poverty line.²

The national economy is quite diversified, with services being the most important sector in terms of contribution to GDP (roughly 49 percent, up from 45 percent a year earlier). Agriculture is a key sector, contributing 13 percent to GDP (2004) and employing more than 30% of the labour force. Nonetheless, unfavorable weather conditions slowed down this sector's growth in 2005, year in which agriculture's value added weight in total GDP decreased to 9 percent.

While an exchange rate-based monetary policy used from 1999 to reduce inflation to a single digit, the central bank officially switched to an inflation-targeting regime in July 2005; this

¹ The Economist Intelligence Unit, March 2006: "All macro-economic indicators suggest that the current consumption boom relying on imports is not sustainable."

² World Bank (2004).

has been an appealing policy development to investors, who trusted the leu³ (that is, the national currency)'s appreciation. From November 2004, Romania maintains a managed floating exchange rate regime, while since mid-2005 the country has taken further steps towards full capital-account convertibility, in preparation for its EU accession. From 1 July 2005, non-residents have no restrictions on operations in current and deposit accounts. Consequently, Romania, which hopes to join the European Community in 2007, has become a target for portfolio investors, drawn by its still high interest rate (around 8.5 percent) and steadily appreciating currency. Nonetheless, the stronger leu penalizes country's export competitiveness: in 2005, Romania's trade deficit widened over 46 percent compared to the previous year. The Central Bank's representatives have nonetheless expressed views that not only leu's appreciation has led to lower exports, but also the ineluctable structural changes (towards higher value-added products like machinery and equipment⁴) in country's export base themselves. Productivity gains and prudent wage policies are needed thus to offset the impact of the stronger domestic currency.

The current account deficit continued to soar in 2005, reaching an estimated 8 percent of GDP, on the background of:

- balance of payment deficit financing: FDI, transfers, portfolio investment, multilateral and commercial external lending;
- growing imports and exports;
- improved access to international capital markets – interests on a downwards trend, increased maturities, debt diversification;
- no significant increase in domestic and external debt levels;
- National Bank reserves continue to consolidate.

Romania exports quite a diversified range of products, but obviously the weight of manufactured goods has increased since 2000, while the shares of food and mining products have declined. Traditional exports like textiles and clothing products are also losing ground.

The trade deficit in agricultural and food products (HS chapters 1-24) continued to deepen in 2005, reaching a new record at \$1.6 billion, 28 percent up from the previous year (Table 1), with the value of exports covering just 33 percent of the total import value. This accelerated increase in agricultural merchandise trade deficit has largely been the result of the GDP growth rate, and the rapid expansion in imported meats (swine, poultry), tobacco and cigarettes, sugar, various food ingredients and preparations (Table 2).

Table 1. Romanian Agricultural and Food Trade, chapters 1-24 in the HS
(million US\$, nominal prices)

	1997		2000	2001	2002	2003	2004	2005
Agri-food exports (fob)	594	...	338	433	434	568	730	833
Agri-food imports (cif)	695		932	1206	1174	1738	2042	2513
Balance	-101		-594	-773	-740	-1170	-1312	-1680
Exports as a percentage of imports	85		36	36	37	33	28	33

Source: Romanian Customs

³ The Leu and was redenominated as of 1 July 2005, the Leu dropping four zeros. One new Leu (RON) is equivalent to 10,000 old Lei (ROL). The redenomination of the Leu is intended to, *inter alia*, simplify monetary transactions, mark the end of the inflationary cycle and the start of price stability, and facilitate the future conversion to the euro. Holders of ROL will be able to exchange them for RON at banks until 2009 (Economist Intelligence Unit, 2005).

⁴ Vice-governor Cristian Popa (March 2006).

Table 2. Top Romanian Agricultural Imports, 2005

HSC	Product	IMPORT	
		Amount (MT)	Value (thou \$)
0203	Meat of swine, fresh, chilled or frozen	192,490	388,103.1
2402	Cigarettes, cigars and other	10,677	223,490.5
1701	Cane or beat sugar and chemically pure sucrose	540,402	139,690.5
0207	Poultry meat and offal	160,076	131,432.3
2106	Food preparations NESOI	38,467	111,479.4
0901	Coffee, whether or roasted or decaffeinated	43,242	86,688.7
2401	Raw tobacco	20,930	77,318.4
2309	Preparations used in animal feeding	122,060	72,267.0
0803	Bananas, fresh or dehydrated	143,207	65,858.8
0805	Citrus fruits, fresh or dehydrated	141,616	52,248.6
0303	Fish, frozen, excluding fish fillets and other fish meat of heading 0304	60,176	51,254.5
0202	Meat of bovine animals, frozen	24,191	48,548.8
1905	Bread, pastry, other bakers' wares	18,464	44,287.9
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80%	5,824	43,705.5
1511	Palm oil, whether or not refined	45,144	29,661.0
0504	Guts, bladders and stomachs of animals	9,076	27,560.6
1206	Sunflowerseed, whether or not broken	53,036	27,254.7
1806	Chocolate and other	10,150	26,797.1
2005	Vegetables, processed or preserved, other than in vinegar, NESOI	29,623	25,864.6
2008	Fruits and other edible plant parts	20,856	25,467.9
0209	Pig fat and poultry fat, fresh, chilled, frozen, salted, in brine, dried or smoked	33,031.94	24,694.6
2304	Soybean meal	88,132.97	24,487.4
1001	Wheat and meslin	158,767.70	23,533.2
0206	Edible offal fresh, chilled, frozen	31,526.52	23,079.1
1006	Rice	79,729.10	22,352.9

Source: Romanian Customs

Agricultural exports in 2005 continued the steady upward evolution begun in 2000, registering a 14 percent growth, with most traded products in live sheep (11 percent of the total), live bovine animals (9 percent), corn (6 percent), oilseeds for crushing (6 percent), edible oil (6 percent), and barley (4 percent) (Table 3).

Table 3. Top Romanian Agricultural Exports, 2005

HSC	Product	EXPORT	
		Amount (MT)	Value (thou \$)
0104	Live sheep animals	41,545.0	91,763.1
0102	Live bovine animals	35,355.1	73,860.1
1005	Corn	430,282.8	55,310.5
1206	Sunflowerseed, whether or not broken	188,439.3	55,106.7
1512	Refined sunflowerseed oil	83,332.4	54,723.5
1003	Barley	317,460.7	37,620.6
0802	Other nuts, fresh or dried, whether or not shelled or	9,953.0	31,590.4

	peeled		
1001	Wheat and meslin	258,836.3	30,232.9
1205	Rapeseed whether or not broken	111,669.3	28,407.2
0709	Other vegetables, fresh or chilled	3,836.3	25,114.6
1905	Bread, pastry, other bakers' wares	12,271.1	24,450.1
2306	Oilcake and other solid residues	260,024.3	23,940.7
2204	Wine of fresh grapes, including fortified wines	26,956.4	22,298.2
2009	Fruit juices and vegetable juices, unfermented	32,836.4	21,699.3
1602	Other prepared or preserved meat, meat offal or blood	5,021.7	17,243.9
0710	Vegetables (uncooked or cooked by steaming), frozen	3,426.8	17,141.5
0406	Cheeses and curd	4,298.7	14,849.6
0409	Natural honey	6,631.6	12,525.1
1201	Soybeans whether or not broken	49,780.2	12,453.2
2106	Food preparations NESOI	7,260.9	10,044.4
1507	Soybean oil, whether or not refined	17,081.4	9,543.8
0207	Poultry meat and offal	2,593.0	8,758.9
0712	Dried vegetables, whole, cut, sliced, but not further prepared	369.7	8,372.0
0204	Meat of sheep or goats fresh, chilled or frozen	1,586.1	7881.1
0101	Live horses and mule animals	5,711.7	7,795.0

Source: Romanian Customs

About two thirds of Romania's agricultural exports go to the EC (Table 4); Italy is still the major single export market (16.5 percent of total merchandise exports in 2005), followed by Spain (9.3 percent), Greece (8.4 percent), and Germany (7.6 percent). The share exported to another major partner, Turkey, rose to 8.4 percent from 6 percent in 2004. The value of Romania's agricultural exports to the United States decreased by 11 percent in 2005.

Total merchandise agricultural imports have increased constantly over the last few years, reaching a peak of \$2,513 million in 2005 (up from \$2,042 million in 2004), due to strong GDP growth. Swine meat represented 15 percent of the total (compared to 11 percent in 2004); the share of cigarettes and tobacco products made up about 12 percent, while the share of sugar almost reached 6 percent. Other major imports continued to be in 2005 poultry meat and various food ingredients.

Table 4. Romania's Agricultural Trade by Region (million US\$)

	Exports				Imports				2005 Balance
	2002	2003	2004	2005	2002	2003	2004	2005	
EU	222	325	485	540	443	572	1044	1328.6	-788.6
CEFTA	55	107	61	78	244	451	47	66.6	11.4
USA	4	7	7	6.3	106	93	198	231.3	-225
Moldova	17	17	20	20.8	29	39	29	39.4	-18.6
Other	136	112	157	187.9	352	583	724	847.5	-659.6

Source: Romanian Customs

EU is the leading source of Romania's agri-food imports, accounting in 2005 for 53 percent of the total (pretty steady from 2004). By country, Germany supplied 9.6 percent of the food merchandise imports, followed by US (8.9 percent), Poland (5 percent), and respectively Italy and Turkey (each with roughly 4 percent).

AGREEMENT COMPLIANCE

Romania's membership in various arrangements makes its trade regime quite complex.

Romania offers at least MFN treatment to all its trading partners. The country is signatory to regional trade agreements, the most important being the European Association Agreement. This became effective on February 1, 1995, and, after by the two parties progressively liberalizing trade until customs duties elimination, Romania is currently aligning its preferential regime with that of the EC.

Romania has a trade agreement with the European Free-Trade Association (EFTA): Switzerland, Iceland, Liechtenstein, Norway (being member from 1993).

From July 1997, Romania is a member of the Central European Free-Trade Agreement (CEFTA); after May 2004, when the first wave of Central European states officially joined the EU, only Bulgaria, Romania and Croatia remained parties of the CEFTA Agreement.

Other agreements the country is part of are bilateral free-trade agreements (BFTAs) with countries Israel, Moldova, Turkey Lithuania, Albania, Bosnia-Herzegovina and Macedonia and the Black Sea Economic Cooperation (BSEC). In addition, the Global System of Trade Preferences for Developing Countries, with 42 developing and less developed countries; the Association Protocol signed between Romania and 16 developing countries (P16); currently there are 13 members signatory to the Protocol.

World Trade Organization

The WTO Agreement and the commitments envisaged by the European Association Agreement are the main factors shaping up the Romanian trading system. Currently, Romania continues to work with the EC on bilateral concessions for agricultural products up to the point when the country, after becoming a full EU member, will have to adopt the EU trade regime and the CXT. Consequently, domestic legislation on the import and export regimes, standards and technical regulations, public procurement, competition policy, and intellectual property rights has been amended to reflect both its EC and WTO commitments.

Romania became a member of the General Agreement on Tariffs and Trade (GATT) in 1974, and was an original member of the WTO. As a developing country, under the Uruguay Round it bound most of its tariff rates for agricultural products at significant levels (on average, at 109 percent), which were gradually reduced by the end of 2004. In fact, though, these binding tariffs have seldom operated, as applied rates stood at much lower levels (currently averaging roughly 25 percent). Romania also obtained "special and differential treatment" from the WTO developed members and could adopt protectionist policies not only in terms of tariffs, but also with regard to domestic support reduction. The base period for reduction commitments was 1986-88, when Romania's capacity to allocate significant funding for agricultural subsidies and the domestic production were relatively high.

In the recent years, Romania's trade policy has been consistent with its commitments to the World Trade Organization. Import and export flows do not require excessive licensing and quantitative restrictions. Administrative waivers were eliminated from 1997. Import licenses are needed only for products that are covered by tariff rate quotas (TRQs) as a result of the various trade agreements the country is party to. TRQs within WTO have been hardly used since 1997, because Romania's applied MFN import duty rates have been lower than the WTO

in-quota tariffs. There has not been any tariff-rate quota formally opened since 2003, because of the better market access provided in Romania's general schedule.

Export licenses were discarded in 1997, with the exception of those for commodities under the preferential quotas. However, Romania has on a few occasions unilaterally resorted to temporary bans in case of domestic shortages.

Romania regularly participates in the Doha round discussions following, in general, the position of the EU. On agriculture, it is interested in strengthening the rules on competition (i.e., export subsidies) and on domestic support at farm level.

From 2005, the authorities took steps in transposing into national legislation mechanisms specific to the EU trade system, as follows:

- **Law 300/2005** on setting up an import and export certificate system for agricultural products (published in the Official Gazette on Oct. 27, 2005). The law transposes in a simplified manner Commission Regulation (EC) No 1291/2000 of 9 June 2000 laying down common detailed rules for the application of the system of import and export licences and advance fixing certificates for agricultural products.
- **Law 299/2005** on setting up an import and export guarantee system for agricultural products (published in the Official Gazette on Oct. 27, 2005). The Law transposes in a simplified manner Commission Regulation (EC) No 2220/1985 laying down common detailed rules for the application of the system of import and export licences and advance fixing certificates for agricultural products.
- **Emergency Ordinance 161/2005** laying down amendments to art. 22 of Law 299/2005 and to art. 33 of Law 300/2005 (published in the Official Gazette on 25 Nov. 2005)

Secondary legislation for the application of the two Laws:

- **Government Decision 255/2005** laying down a list of products for which export and import certificates are to be issued as well as the value of the guarantees (published in the Official Gazette on 28 Feb. 2006).
- **Government Decision 1517/2005** for approving Methodological Norms for enforcement of Law 300/2005 (published in the Official Gazette on 27 Dec. 2005).
- **Government Decision 191/2006** for approving Methodological Norms for enforcement of Law 299/2005 (published in the Official Gazette on 22 Feb 2006).
- **Minister of Public Finance's Order 144/2006** providing the List of banks eligible to issue letters of guarantee in connection with art. 11 para (1) of Law 299/2005 (published in the Official Gazette on 6 Feb. 2006).
- **Minister of Agriculture, Forests and Rural Development's Order 150/2006** approving procedures for opening import quotas on specified swine meat and poultry meat products originated from EU, as well as for the management of these quotas within the period 1 March - 31 December 2006 (published in the Official Gazette on 1 March 2006)

Market Access

Tariffs

In accordance with the URA provisions, Romania's high bound tariffs for agricultural products were reduced by an average of 24% during the ten-year implementation period (1995-

2004). As already mentioned, however, for all agri-food products, there are large differences between bound and applied rates, as import tariffs have been lowered for most agricultural products in several stages since 1997. Changes in the Romanian import schedule are incorporated annually in GOR Decisions usually adopted in December of the previous year and become effective as of January 1. Nonetheless, the year 2006 brought a unique situation, the authorities extending through mid-February the 2005 schedule. On February 13, 2006, the GOR passed the regulation (Government Decision 200/2006) approving Romania's new import schedule (valid from February 16 through December 31), which incorporated changes of major importance to US exporters (see [RO6005](#)), as it raised the tariff on frozen leg quarters from 45 to 70 percent until August 15, 2005. Other than this, no change in the MFN tariffs was passed, except for duty on swine liver (HSC 0206 41), decreased to 10 percent in 2006 (from 20 percent in 2005).

Production-weighted current import tariffs currently average 25 percent, with the highest rates being set at 45 percent on sensitive products such as poultry, pork, beef and meat preparations, dairy products, selected vegetables.

Duty rates on alcoholic beverages and cigarettes, though decreasing over the past four years, are maintained at the substantial levels from 2005. From 2003, as a result of domestic industry's lobby, taxes on refined sugar are preserved at 90%, while raw sugar is taxed with 60%⁵. Higher protection rates apply during the harvest season for selected fresh fruits (apples: 100% customs duties) and vegetables (tomatoes: 90%).

Reductions are offered on a Most-Favored-Nation basis, i.e., to all WTO members.

Sanitary and Phytosanitary Measures

Romania is adopting the European legislation a very fast pace as the European integration is approaching. Major part of the newly adopted legislation has already been implemented. Legislation on food additives, food flavors, pesticides and residues, food contaminants, organic products and biotech products was amended during 2005.

Adoption and implementation of EU measures will have a severe impact on U.S. exports of meats (poultry, beef) and biotechnology products to Romania, but U.S. products continue to have market access in this interim period.

Currently, due to the fact that the Romanian veterinary authorities accepted the equivalence and regionalization principles, there are no major SPS restrictions to US exporters. Meats (pork and poultry) can be freely exported to Romania. In addition, other animal products such as tripe, casings, genetics, petfood originating from US are accepted with proper certification, including on specified risk materials (SRM) for BSE.

The Veterinary Order no. 148/2005, in effect since January 2006, regulates the activities of surveillance, prevention and control of animal diseases, the ones transmissible to humans, animal protection and environment protection. This regulation provides for each disease a set of rules regarding surveillance, sample testing, risk areas, inspection frequency. Sanitary and veterinary surveillance in farms, food processing establishments, cold storages, and stores is also provided by this regulation.

Other regulations refer to poultry meat, live animals protection, animal by-products not intended for human consumption, biological reproduction material, fishery products.

⁵A preferential duty of 45% for sugar is granted to the 42 trading partners signatory to the Global System of Preferences.

The phytosanitary legal framework has little changed over the last two years. GOR Ordinance 136/2000 (approved through Law 214/2001) and GOR Decision 1030/2001 (changed by GOR Decision 1619/2003) are the main legal provisions in this field. The methodological norms of the latest provide a full list of organisms considered harmful on the Romanian territory and which are forbidden for importation. Also, agricultural products contaminated with the specified organisms are forbidden for importation.

Every year Ministry of Agriculture updates the Official Catalogue of registered varieties of plants for cultivation in Romania (Order 727/2005), which includes all varieties tested by the State Institute for Varieties Testing and Registration. The following set of information is published for each variety: name, owner, registration year, re-registration date (year) or de-listing date (year), comments. Crop, vegetable and ornamental plant varieties are kept in the Official catalogue for 10 years, and 15 years in case of fruit trees, vineyard and ornamental shrubs. Two years before this period expires, a request for re-registration along with the necessary seeds for testing should be submitted to the appropriate authority.

U.S. suppliers is important to note that only plant varieties for cultivation (seeds and propagating material) included in the Romanian Official Register, or in the EU Official Catalogue or in the Official Catalogue of one of the Member States will be accepted for importation in Romania. The importer wishing to import one plant variety should request an Import permit, along with documents proving that the plant variety has been already registered/introduced in EU official plant register or one of the Member States. Order 257/2002 issued by Ministry of Agriculture regulates import of seeds and propagating material for multiplication and cultivation. Phyto-sanitary certificate issued by APHIS for certain plant species listed in Annex 5 of GOR Decision 1030/2001 and the import approval are the main documents necessary for importation.

The phytosanitary certificate, issued by USDA/APHIS, must accompany the products imported from the United States, certifying that the product is free of quarantine organisms.

Biotech Policy

In 2005, Romanian farmers planted 85,000 hectares of Round-up Ready Soybeans and had excellent yields. For the first time since the Revolution Romania became a net exporter of vegetable protein. The adoption of GMO soybeans provided Romania with a unique opportunity to produce an export crop and lower the cost of producing animal feed which will be critical for pig and poultry producers to compete with more heavily subsidized EU producers.

Romania had approved the cultivation of Round-up ready soybeans through December 31, 2005. Seed companies submitted to the authorities the dossier requesting the re-approval of the product for 2006, but have not received a response yet. Nonetheless, there were indications from the GOR (including via press releases) that Romania would approve cultivation of GM Soybean in 2006.

The national biotech framework law (No. 214/2002) is harmonized with the EU relevant legislation. Thus, bio-engineered crops are to be approved for testing, consumption and commercialization prior to imports into Romania.

In March 2006, via GOR Decision 173, in accordance with its EU accession commitments, Romania adopted measures on traceability and labeling of food products deriving from GMOs. (Regs 1829/03 and 1830/03). Thresholds for labeling, as per current EU regulations, were in

Romania set for Romania as well at 0.9% for an adventitious presence of an authorized GM in food or feed and, respectively, 0.5% for the accidental presence of unauthorized, but scientifically acceptable GMOs. For the first time, animal feed, if produced from GM crops, are required to be labeled.

The GOR has recently taken various measures to limit and control GMOs, particularly in this pre-accession year. Among those, the decision to introduce a discriminatory subsidization of conventional vs. transgenic soybeans, the new requirement for a 15 km buffer zone between GMOs and natural protected areas (as per Emergency Ordinance 195/2005), as well as the provision for all farmers to seek approval for each individual field to be planted to GM soybeans. Also, the GOR decided to officially ban plantings of transgenic soybeans from 2007.

Export Subsidies

Within URA, Romania obtained non-zero commitments on export subsidies for most agricultural commodities: live animals, meats, cereals, oilseeds, sugar, dairy products. Starting from the reference level of support within the period 1986-1989, the value of export subsidies (in constant 1986-89 prices) was to be reduced by 24 per cent and the quantity of subsidised exports by 14 per cent during the ten-year implementation period.

Nonetheless, such export incentives were only seldom used.

The legal basis for the current policy is provided by GOR Decision 1518/2002. Although this regulation leaves room for quite a variety of products eligible for export rebates, in fact in 2005 the only amount budgeted for this purpose was roughly \$222,000, corresponding to 8,080 HL (that is, \$27.5/HL). This was to cover (as per Ministerial Order 755/2005) controlled origin wine exports to any destination except the European Union. Rebates were claimed for just 1,910 HL.

GOR Decision 11/2006 (published in the Official Gazette no. 36 from 16 January 2006) includes amendments and additions to GD 1518/2002. According to the 2006 budgetary allocation at the disposal of the Ministry of Agriculture, Forestry and Rural Development, 14 million RON can be used for export refunds for meat products, cereals and wine. So far (as per Ministerial Order 75 from February 2006), another 8,080 HL of wine are eligible for export subsidies, at RON 90/HL (that is, \$31/HL at the current exchange rate).

Domestic Support

Benefiting from its developing country status (the *de minimis* clause), Romania can provide trade-distorting support up 10 percent of the value of output of each product.

Final figures for FY2005 (Jan-December) show that the total appropriation at the disposal of the Ministry of Agriculture, Forests and Rural Development stood at RON 2,339.9 million (\$802 million)⁶, of which roughly 12,000 billion in measures exempted from the reduction commitment ("green-box" type measures). These covered the main agricultural products: wheat, milk, corn, sunflower and rapeseed, soybeans, sugar beet, flax and hemp, potatoes, vegetables, fruits, fodder, live bovine animals, live swine and live poultry.

⁶ At the annual average exchange rate of 29,1 RON for 1 US\$.

The Ministry of Agriculture's budget for 2006 is RON 2,860 million (equiv. of approx. \$1,000 million at the current exchange rate).

"The Farmer" program is a new support measure to provide co-financing to SAPARD funds and takes 25% of Ministry of Agriculture's total budget. This basically represents support for investments and the program was budgeted with 700 million RON, of which 450 million for the livestock sector and the balance for the crop sector.

Another "green box" measure is supporting land reclamation activities, maintenance and repairs of irrigation systems and modernization of pumping stations. For this purpose, the budgetary outlay stands at 220 million RON (8 percent of total budget).

Forestry will be getting a similar support of 250 million RON, especially for reforestation programs and erosion control.

An early retirement scheme has been also developed and budgeted in FY2006, to promote agricultural land consolidation: for a life annuity from 50 to 100 euros per hectare the elderly can give their lands to young farmers (either by selling or leasing them out). Total budget allocated for this year is 56 million RON. Another 47 million lei are allocated for the introduction of an unified agricultural and forestry land registration (cadastre) system.

The appropriation for institutional support consolidation stands at 500 million old RON.

Most support measures are handled by the Paying and Intervention Agency. In addition, the national SAPARD agency was turned in March 2006 into a Paying Agency for Rural Development and Fisheries, in preparation for the future structural funding.

One main change is the shift to direct support per cultivated areas and animal head. A total of 630 million lei were budgeted for both livestock and crops sector. These measures are considered transitory to the EU direct payment system, while most schemes from the previous years were discontinued.

In the crop sector, wheat, corn and sunflower are not any longer eligible for explicit budgetary support, while production subsidies are mainly directed to industrial crops, sugar beet production and tobacco (see Table 5). For "market price support measures", 110 million RON were allocated. This includes the introduction of a grain market intervention system.

Most of livestock production subsidies are provided per head of animal and can be described as "green box-type". Eligible are dairy cows, sheep, and fish and the subsidy is especially meant to increase livestock number and improve husbandry practices. Market price support is budgeted for hogs and broilers delivered to processors.

Dairy cows will be subject of a payment per head ranging from RON 500-700/head, as follows: 200 RON/head within the initial 60 days from giving birth if calf resulted through artificial insemination, 100 RON/head if the cow had been conventionally inseminated by a certified bull; 300 RON/head for all cows which are registered with the Official Performance Control Office, 100 RON/head for cows registered with the genealogic register, 200 RON/head for cows ecologically certified, 200 RON/head after 6 month age of a calf resulted through artificial insemination, 100 RON/head for a calf resulted through conventionally insemination.

Sheep production will receive support for the first time. The condition is that the animal is to be held by the owner for at least six months and have farms of at least 50 sheep. Subsidies range from 20 RON/head of sheep to 50 RON/head of male.

Support measures for swine and poultry sectors qualify as market distorting-type. Hog subsidies of 120 RON/head will be provided for animals of 90 kilos weight from E class in accordance to EUROP carcass classification system. Similarly, hogs from U class will get a 100 RON/head, 140 RON/head will be provided to hogs ecologically certified, 50 RON/head will be given for piglet production.

Poultry producers are eligible for subsidies from 1.4 RON/head if broilers delivered to slaughterhouses weigh at least 1.75 KG LW.

Honey producers will receive a direct payment provided that their production is of minimum 10 kilograms. Subsidies range between 20 RON/bee family elite to 30 RON/bee family for organic honey.

Starting 2007 only farmers whose land is recorded in the national Register Book are eligible for subsidies. It is estimated that over 1.5 million farms will be eligible for further subsidies from 2007. The registration of these farms is still ongoing and is due to be completed by the end of this calendar year.

Table 5. Production Support for Crop Programs, 2006

Product	Unit measure	Support per unit	Of which:		Total support Thou lei (RON)	Hectares estimated to receive subsidies
			RON	Vouchers	Cash payment	
Non-GM soybean	Ha	500	250	250	17,500	35,000
Technical plants	Ha	900	450	450	1,800	2,000
Rice	Ha	1500	750	750	9,000	6,000
Medical and Aromatic Plants	Ha	1110	555	555	6,660	6,000
Hops	Ha	1441	721	720	722	501
Fruit tree plantations	Ha	400	400		40,000	100,000
Vineyards	Ha	200	200		20,000	100,000
Sugar beat	Ha	1.5	750	750	44,250	29,500,000
Field vegetables	Ha	400	200	200	20,000	50,000
Greenhouse vegetables	Ha	4	2	2	10,000	2,500,000
Greenhouses	Ton	500		500	22,500	45,000
Mushrooms	Ton	500		500	2,500	5,000
Authorization of vineyards of known origin	Ha	10		10	160	16,000

Certification and marking of quality of wine of known origin	Liter	0.12	0,12	9,600	
Processing of textile fibers	Ton	311.5	311,5	300	
Tomatoes for processing	Ton	125	125	3,125	25,000
Peaches for processing	Ton	170	170	570	3,353
Other fruits and vegetables for industrialization	Ton	150	5.4	5,400	36,000
Tobacco	Ton	1876	1876	23,100	12,313
Support to producer groups for fruit and vegetable production			3	3,000	
Certified organic crops	Ha	728	728	11,650	16,003
Total				251,837	

Source: Ministry of Agriculture, Forestry and Rural Development

OTHER TRADE AGREEMENTS

The European Association Agreement

The EU Association Agreement was Romania's first major step towards the European membership. Ratified in 1995, it provides that both partners are committed to reciprocally make concessions for industrial products so that by the end of the transitional period (i.e., in 2002) all tariffs and quotas would be eliminated. This is not the case of agricultural products, acknowledged as very sensitive and for which the most important provisions concern import quotas with reduced levies and preferential tariff rates.

The EU phased out more rapidly its trade barriers, granting concessions in either unlimited volumes or within TRQs for agricultural products imported from Romania.

Similarly, Romania granted two types of preferences to the EU:

- reduced tariffs for some products, either in unlimited quantities
- tariff bindings for processed agricultural commodities

These initial concessions were subject to subsequent renegotiations over the last years. The results of these negotiations were grouped under the "double zero" and the "double profit" agreements.

A new phase of bilateral liberalization of the agricultural trade regime was concluded between the Government of Romania and the European Union in May 2005 and promulgated by the Romanian Parliament in July in the form of an Additional Protocol to the "European" Association Agreement. This Protocol is seen as a further and necessary step prior to Romania's 2007 or 2008 full EU membership and assessed to give the trade flows between Romania and EU-25 a new boost.

Romania is currently in full process of adopting the common market mechanisms, although a tight budget makes authorities concerned about how domestic exporters will be able to use the new trade concessions. EU domestic support and export refund practices, combined with

a lack of competitiveness of the local producers themselves, resulted, for Romania, in increasing agricultural trade deficits since 1995, when the European Agreement was ratified by the two parties.

The May 2005 Additional Protocol to the European Agreement entered into effect on August 1, 2005, provides two types of lists of products for which the two parties reached consensus in improving market access:

- 1) A list of products for which trade will be fully liberalized. Among the products originated from EU that will be applied zero customs duties when imported into Romania there are:

live dairy cows both for reproduction and dairy purposes,
 swine animals both for breeding and production,
 live chickens, meat of wild boar, meat of sheep or goats,
 beef liver and offal (HSCs 0206 1091, 0206 1099, 0206 2100, 0206 2200, 0206 2999)⁷,
 swine liver, fresh or frozen (0206 3000 and 0206 4100),
 pig fat dried or smoked (0209 0019 and 0209 0030),
 meat and edible meat offal salted, in brine, dried or smoked (including swine liver and offal: 0210 9941, 0210 9949, bovine offal 0210 9959, geese liver),
 bee honey (0409 0000),
 various vegetables,
 fresh or frozen,
 coconuts, other nuts,
 fresh or dried (0802),
 various fruits (bananas (0803),
 tropical fruits (0804),
 citrus fruits (0805),
 fresh grapes for wine,
 raisins (0806 20), pears and quinces, cherries, plums, raspberries, currants),
 coffee (0901),
 seasonings and aromatic plants,
 starches,
 peanuts (1202),
 sunflowerseed for sowing,
 hop cones (1210),
 other pig fat (including lard) and poultry fat (1501 00),
 other fats of bovine and sheep animals (1502 00),
 fats of fish,
 crude and refined soybean oil for technical use (1507 1010 and 1507 9010),
 peanut oil, olive oil, sunflowerseed oil for technical use, rapeseed oil,
 homogenized preparations of liver (1602 2011, 1602 2019),
 other prepared meat of swine (1602 4190, 1602 4290, 1602 4990),
 maple sugar and syrup (1702 20), other sugars, including pure lactose, maltose, glucose and fructose (1702 1900, 1702 30, 1702 9060, 1702 9071, 1702 9075, 1702 9079, 1702 9080, 1702 9099, 1703),
 vegetables preserved by vinegar, other than by vinegar or by sugar,
 peanuts and peanut butter (2008 11),
 roasted almonds & pistachio (2008 1913 and 2008 1993), nut and dry fruit mixtures,
 pineapple and pineapple juice, citrus and tropical fruit juice,
 grape must (2204 30),
 fermented beverages (cider, perry, mead: 2206 00),

⁷ Exempted from customs duties only if does not benefit from export subsidies at origin.

residues of cereals (2302),
 residues of starch manufacture (2303),
 oilcakes (soybean 2304 00, peanut 2305 00, other 2306),
 preparations for animal feeding (2309 90),
 albumins,
 flax and hemp.

- 2) A list of products for which increased in-tariff quotas apply from August 1, 2005. Ministerial Orders 745 and 746 of the Ministry of Economy and Trade lay down the TRQs for products originated from EU that will apply from January 1- December 31, 2006 (Tables 6 and 7).

Table 6. TRQs applied in 2006 for Primary Agricultural Imports Originating from EU

	HSC	Product	TRQ (MT), if not otherwise specified	Date of opening (dd.mm.yy)	Import duty (%)	Unitary allocation (MT if not otherwise specified)
1.	0102 90 51 0102 90 59 0102 90 61 0102 90 71	Cows and heifers weighing more than 300 kg	15,000 heads	03.01.2006	15	150 heads
2.	0103 92 19	Live swine animals weighing more than 50 kg (except for breeding sows weighing more than 180 kg and for purebred breeding animals)	14,000 1,000 heads	03.01.2006 03.07.2006	15	150 60 heads
3.	0201 0202	Meat of bovine animals, fresh, chilled or frozen	4,000	03.01.2006	exempted	20
4.	0203 22 0203 29 0210 11 0210 12 0210 19	Swine meat, fresh, chilled or frozen.	23,000	03.01.2006	exempted	40
5.	0206 10 95 0206 29 91 0210 20 0210 99 51	Fresh or chilled edible offal of bovine animals, other Frozen edible offal of bovine animals, other Meat of bovine animals salted, dried or smoked Edible offal of bovine animals, other	100	03.01.2006	exempted	1
6.	0207	Meat and edible offal, of the poultry of heading 0105, fresh, chilled or frozen	9,000 o/w: 4,500 Sem, I o/w: 1,000 new importers 3,500 traditional importers 4,500 Sem, II, o/w 500 new 4,000 traditional	03.01.2006 03.07.2006	exempted	20 20 20 20

	HSC	Product	TRQ (MT), if not otherwise specified	Date of opening (dd.mm.yy)	Import duty (%)	Unitary allocation (MT if not otherwise specified)
7.	0402 10 19 0402 21 11 0402 21 19 0402 21 91	Milk and sour cream, in powder or other solid forms	1,500	03.01.2006	exempted	20
8.	0403 10 11 to 0403 10 39 0403 90 11 to 0403 90 69	Yogurt, plain, no sugar or cocoa added Other, plain, no fruit or cocoa added	1,000	03.01.2006	exempted	20
9.	0405 10 0405 90	Butter and other fats derived from milk	1,900 o/w: 950 Sem,I 950 Sem,II	03.01.2006 03.07.2006	exempted	20 20
10.	0406	Cheese and curd	3,000 o/w: 1,400 Sem,I 1,600 Sem,II	03.01.2006 03.07.2006	exempted	20 20
11a	0407 00 11 0407 00 19	Birds' eggs for hatching	2,000	03.01.2006	exempted	15
11b	0407 00 30 0408 11 80 0408 19 81 0408 19 89 0408 91 80 0408 99 80	Other Birds' eggs not in shell	330	03.01.2006	exempted	15
12.	0701 90 10 0701 90 50 0701 90 90	Potatoes, fresh or chilled, other than for sowing or for starch production	20,000	03.01.2006	exempted	60
13.	07 02 00 00	Tomatoes	300	03.01.2006	exempted	10
14.	0703 10 19	Onion, chilled or fresh (not for sowing)	5,000	03.01.2006	exempted	20
15.	0706 10 00	Carrots and turnips, fresh or chilled	1,000	03.01.2006	exempted	10
16.	0706 90 10	Celery, fresh or chilled	250	03.01.2006	exempted	5
17.	0707 00 05	Cucumbers, fresh or chilled	200	03.01.2006	exempted	5
18.	0709 51 00	Agaricus-type mushrooms, fresh or chilled	300	03.01.2006	exempted	5
19.	0808 10 80	Fresh apples (except for the ones for cider, in bulk, from Sept 16 to December 15 and Golden Delicious and Granny Smith varieties)	500	03.01.2006	exempted	5
20.	0809 10 00	Fresh apricots	200	03.01.2006	exempted	5
21.	ex 1001	Wheat and meslin, except for durum wheat for sowing	125,000	03.01.2006	exempted	2000
22.	1002 00 00	Rye	30,000	03.01.2006	exempted	500
23.	1003 00 1102 90 10 1103 19 30 1103 20 20	Barley Barley flour Barley groats and meal Barley pellets	57,000	03.01.2006	exempted	200
24.	1004 00 00 1102 90 30 1103 19 40 1103 20 30	Oats Oats flour Oats groats and meal Oats pellets	7,000	03.01.2006	exempted	200
25.	1005 10	Corn for sowing	3,700	03.01.2006	exempted	100

	HSC	Product	TRQ (MT), if not otherwise specified	Date of opening (dd.mm.yy)	Import duty (%)	Unitary allocation (MT if not otherwise specified)
26.	1005 90 00	Corn, other than for sowing	49,000	03.01.2006	exempted	1000
27.	1006 1102 30 00 1103 19 50 1103 20 50	Rice Rice flour Rice groats and meal Rice pellets	10,000	03.01.2006	exempted	200
28.	1101 00 1103 11 1103 20 60	Wheat and meslin flour Wheat groats and meal Wheat pellets	3,000 80,000	03.01.2006 03.01.2006	exempted 15	50 50
29.	1105	Potato flour and meal	100	03.01.2006	exempted	5
30.	1107	Malt	31,100	03.01.2006	exempted	1000
31.	1507 10 90 1507 90 90	Crude soybean oil Other soybean oil	2,500	03.01.2006	exempted	20
32.	1517 10 90	Margarine with less than 10% fat content	1,000	03.01.2006	exempted	20
33.	1601 00 10 1601 00 91 1601 00 99	Sausages prepared of liver and similar products Sausages not made of meat, offal and blood (except for liver) Sausages and similar products, of meat, offal (other than liver) or blood	1,125	03.01.2006	exempted	10
34.	1602 10 00	Homogenized preparations of meat, offal or blood, in packs under 250 grams	1,250	03.01.2006	15	10
35.	1602 31 1a 1602 39	Poultry meat, prepared or preserved	1,200	03.01.2006	exempted	20
36.	1602 41 10 1602 42 10 1602 49 11 1602 49 13 1602 49 15 1602 49 30 1602 49 50	Ham & cuts thereof, of swine animals	2,125	03.01.2006	exempted	20
37.	1602 50	Prepared meat of bovine animals	500	03.01.2006	exempted	10
38.	1701 11 1701 12 1701 91 1701 99	Cane sugar, raw Beet sugar, raw Other sugar White sugar or other sugar, not containing flavorings or coloring matter	20,000 o/w : 7,000 new importers 13,000 traditional 15,000 traditional	03.01.2006	exempted 18,8	100 200 200
39.	2001 10 00 2001 90 70 2001 90 93 2001 90 99	Cucumbers including gherkins, preserved by vinegar	2,000	03.01.2006	exempted	10
40.	2002	Tomatoes, preserved, other than by vinegar	2,000	03.01.2006	exempted	10
41.	2005 20 20 2005 20 80	Potatoes, preserved, other than by vinegar, non-frozen, other than	250	03.01.2006	exempted	10

	HSC	Product	TRQ (MT), if not otherwise specified	Date of opening (dd.mm.yy)	Import duty (%)	Unitary allocation (MT if not otherwise specified)
		of heading 2006				
42.	2005 40 00 2005 51 00 2005 59 00	Peas, preserved, other than by vinegar, non- frozen, other than of heading 2006 Beans Other	1,200	03.01.2006	exempted	10
43.	2005 70	Olives, preserved	5,000	03.01.2006	exempted	60
44.	2007 10 10 2007 10 99 2007 99 10 2007 99 20 2007 99 31 2007 99 33 2007 99 39 2007 99 55 2007 99 57 2007 99 91 2007 99 98	Jams, fruit jellies, marmalades	500	03.01.2006	exempted	10
45.	2009 50 10 2009 50 90	Tomato juice	100	03.01.2006	exempted	5
46.	2009 61 2009 69	Grape juice (including must), with or without added sugar	1,000	03.01.2006	exempted	20
47.	2009 80 11 2009 80 19 2009 80 35 2009 80 38 2009 80 50 2009 80 61 2009 80 63 2009 80 69 2009 80 71 2009 80 79 2009 80 86 2009 80 89 2009 80 95 2009 80 96 2009 80 99 2009 90 11 2009 90 19 2009 90 21 2009 90 29 2009 90 31 2009 90 39 2009 90 51 2009 90 59 2009 90 94 2009 90 96 2009 90 98	Pear juice, with or without added sugar	300	03.01.2006	exempted	20
48.	2209 00 11 2209 00 19 2209 00 91 2209 00 99	Vinegar (of wine), bottled in less than 2 liters Vinegar (of wine), bottled in more than 2 liters Vinegar (other than of wine), bottled in less than 2 liters Vinegar (other than of	1,000 100	03.01.2006 03.07.2006	exempted	20 5

	HSC	Product	TRQ (MT), if not otherwise specified	Date of opening (dd.mm.yy)	Import duty (%)	Unitary allocation (MT if not otherwise specified)
		wine), bottled in more than 2 l				
49.	2309 10	Dog or cat food	11,000	03.01.2006	exempted	100
50.	2401 cu exceptia 2401 30 00	Raw tobacco	3,200	03.01.2006	exempted	62,5
51.	ex 2401 30 00	Tobacco stems	500	03.01.2006	exempted	10

Table 7. TRQs applied in 2006 for Processed Agricultural Imports Originating from EU

	HSC	Product	TRQ (MT), if not otherwise specified	Date of opening (dd.mm.yy)	Import duty (%)	Unitary allocation (MT if not otherwise specified)
1.	1806 3210 1806 9019 1806 9031 1806 9039 1806 9050 1806 9060	Chocolate and other food products containing cocoa	2,200	03.01.2006	0	10
2.	1806 9070 1806 9090	Chocolate and other food products containing cocoa	240	03.01.2006	0	2
3.	1901 2000	Mixes and doughs for the preparation of bakers' wares of heading 1905	200	03.01.2006	0	2
4.	1904 10 10 1904 20 91	Prepared foods obtained by the swelling or roasting of cereals Prepared foods from unroasted cereal flakes or mixtures and roasted corn flakes	220	03.01.2006	0	2
5.	1905 2010 1905 2030 1905 3111 1905 3119 1905 3191 1905 3199 1905 32 1905 9045 1905 9055 19059060 19059090	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa	5,000	03.01.2006	0	10
6.	2004 1091 2005 2010	Potatoes prepared or preserved otherwise than by vinegar, frozen. Other than products of heading 2006	180	03.01.2006	0	2
7.	2102 3000	Prepared baking Powders	60	03.01.2006	0	1

	HSC	Product	TRQ (MT), if not otherwise specified	Date of opening (dd.mm.yy)	Import duty (%)	Unitary allocation (MT if not otherwise specified)
8.	2105 0010	Ice-cream	160	03.01.2006	0	1
9.	2202	Waters, including mineral and aerated waters, containing added sugar and other sweeteners	5,000	03.01.2006	0	20
10.	2203 00	Bear made from malt	15,600 HL	03.01.2006	0	100
11.	ex 2204 10 220421 220429	Wine of fresh grapes	60,000 HL	03.01.2006	0	500
12.	2205	Vermouth and other wine of fresh grapes	1,200 HL	03.01.2006	50% of MFN duty	20
13.	2208 20	Spirits obtained by distilling grape wine or grape marc	2,000	03.01.2006	50% of MFN duty	20
14.	2208 30	Whisky	6,500 HL	03.01.2006	17.5%	20
15.	2208 40	Rum and tafia	100 HL	03.01.2006	50% of MFN duty	1
16.	2208 50	Gin and juniper distilled	100 HL	03.01.2006	50% of MFN duty	1
17.	2208 60	Vodka	200 HL	03.01.2006	50% of MFN duty	1
18.	2208 70	Liqueurs	150 HL	03.01.2006	50% of MFN duty	1
19.	ex 2208 90	Other (not including 2208 9033 2208 9038, 2208 9048, 2208 9071, 2208 9091 and 2208 9099)	800 HL	03.01.2006	50% of MFN duty	10
20.	2403	Other manufactured tobacco and substitutes, processed; "homogenized" tobacco, extracts	135	03.01.2006	30%	5

TRADE RESTRICTIONS AND OPPORTUNITIES

Another significant surge from the previous year's level of \$197 million, the total value of U.S. agri-food exports to Romania reached \$231 million at the end of 2006. Top exports were, as already traditionally: frozen poultry meat (27 percent of the total), swine meat (25 percent, or, in absolute figures \$57 million, a notable boost from \$14 million in 2004), cigarettes and tobacco (25 percent), food preparations and ingredients (6 percent), sunflowerseed (3 percent), animal casings and beef tripe (2 percent).

With prices that competitively stabilized, US were able to conserve their position of top supplier of poultry meat to Romania, making up for roughly 50 percent of country's imports of this product. Nonetheless, according to Romania's new import schedule (valid from February 16 through December 31, 2006), tariff rates for two poultry products, defined by

the codes 0207 1420: chicken halves and quarters, and 0207 1460: chicken leg halves and quarters, were temporarily increased for 6 months (February 16 – August 15) to 70 percent (from 45 percent in 2005). The Romanian authorities justified this radical action by the special situation triggered on the domestic market by the highly pathogenic Avian Influenza outbreaks (see [RO6005](#)).

For the past two years, US has also consolidated its position on the Romanian hog meat market: in 2005, 25,655 MT of swine meat (out of imports totaling 192,490 MT) were originated from US. Despite the pressure exerted by hog growers, for swine meat the same trade regime from 2005 was extended into 2006, including a number of positions (cuts for processing) exempted from taxes (on an MFN basis). Domestic supply of quality swine meat for processing is very limited, with livestock numbers and overall meat production down in 2005. Duty on swine liver (HSC 0206 41) was decreased to 10 percent in 2006 (from 20 percent in 2006).

The waiver on import duties is expected to continue expanding opportunities for U.S. frozen pork cuts and offalls. This figure more than tripled from 2004 (when US shipped 7,200 MT). Other major suppliers were Germany, Canada, France, Spain. The duty-free quota granted by Romania to EU under the Association Agreement is 23,000 MT per year.

High valued processed products are also boosting in tandem with average income of Romanian consumers. Products with good perspective on the Romanian market remain distilled spirits (bourbon whiskey), nuts (almonds), and snack foods. For beef tripe and natural casings, US continue to be country's top supplier.

Free Trade arrangements (especially with EU) result in customs duty differentials for many U.S. products, which lately deepened as Romania gets closer to EU accession and has to gradually adopt the CXT. US exporters have voiced concerns about these tariff differentials, including exporters of distilled spirits, wheat, animal feed supplements, wine, etc. Moreover, US exports of meat and biotechnology products can be severely impacted in the second half of the year if Romania decides to implement the EU sanitary and phytosanitary prior to accession.

Romania shipped to U.S. in 2005 a total value of \$6.3 million (slightly less than in 2004) in agricultural and food products, mainly wines (30 percent), cheeses (27 percent), semi-canned fruits, food preparations and ingredients, mineral water.